LANCASHIRE COUNTY COUNCIL QUARTERLY VOTING REPORT Q4 2013

OVERVIEW

1. The Pension Fund received voting recommendations for **274** resolutions at **29** meeting meetings in the quarter ended **2013-12-31**.
2. The Pension Fund supported **161** of the resolution (**58.76%**).
3. The Pension Fund voted against on **69** occasions (**25.18%**).
4. The Pension Fund abstained on **24** occasions (**8.76%**).
5. There were **13** non-voting agenda items (**4.74%**).
6. There were **7** withheld agenda items (**2.55%**).

APPENDIX A

TABLE 1: GEOGRAPHIC VOTING OVERVIEW

Geographic Region	Meeting	Resolutions	For	Oppose	Abstain	Withheld	Say When on Pay	Non-Voting
SOUTH AND CENTRAL AMERICA	0	0	0	0	0	0	0	0
REST OF THE WORLD	13	75	35	20	11	0	0	9
ASIA	3	22	11	11	0	0	0	0
NORTH AMERICA	6	68	38	22	1	7	0	0
UK	4	74	61	5	8	0	0	0
EU	2	30	15	9	3	0	0	3
JAPAN	0	0	0	0	0	0	0	0

TABLE 2: ANALYSIS OF UK ALLSHARE VOTING RECOMMENDATIONS

Resolution Type	For	Percentage %	Abstain	Percentage %	Oppose	Percentage %	Total
Annual Reports	3	75.0	1	25.0	0	0.0	4
Remuneration Reports	0	0.0	2	50.0	2	50.0	4
Articles of Association	0		0		0		0
Auditors Appointment	1	25.0	3	75.0	0	0.0	4
Directors	31	91.18	1	2.94	2	5.88	34
Dividend	4	100.0	0	0.0	0	0.0	4
Executive Pay Scheme	0	0.0	0	0.0	1	100.0	1

TABLE 3: MEETINGS VOTE / NOT VOTED IN THE QUARTER

Company	Meeting Date	Type	Date Voted	Comment
PROCTER & GAMBLE CO	2013-10-08	AGM	2013-09-25	Voted
TELSTRA CORP LTD	2013-10-15	AGM	2013-09-30	Voted
CSL LTD	2013-10-16	AGM	2013-09-30	Voted
BRAMBLES LTD	2013-10-22	AGM	2013-10-10	Voted
CARSALES.COM LTD	2013-10-25	AGM	2013-10-14	Voted
ORACLE CORP.	2013-10-31	AGM	2013-10-22	Voted
TATTS GROUP LTD	2013-10-31	AGM	2013-10-16	Voted
PERNOD RICARD SA	2013-11-06	AGM	2013-10-21	Voted
WESFARMERS LTD	2013-11-07	AGM	2013-10-22	Voted
COMMONWEALTH BANK AUSTRALIA	2013-11-08	AGM	2013-10-24	Voted
HAYS PLC	2013-11-13	AGM	2013-11-04	Voted
SHANDONG WEIGAO GP MED POYL	2013-11-15	EGM	2013-10-30	Voted
MICROSOFT CORP.	2013-11-19	AGM	2013-11-11	Voted
SMITHS GROUP PLC	2013-11-19	AGM	2013-11-08	Voted
CLOROX CO.	2013-11-20	AGM	2013-11-05	Voted
SONIC HEALTHCARE LTD	2013-11-21	AGM	2013-11-08	Voted
SYDNEY AIRPORT	2013-11-22	EGM	2013-11-08	Voted
WOLSELEY PLC	2013-11-26	AGM	2013-11-18	Voted
WOOLWORTHS LTD	2013-11-26	AGM	2013-11-12	Voted
FUGRO NV	2013-11-27	EGM	2013-11-14	Voted

SINGAPORE PRESS HOLDINGS LTD	2013-11-29	AGM	2013-11-19	Voted
BRAMBLES LTD	2013-12-03	COURT	2013-11-19	Voted
BRAMBLES LTD	2013-12-03	EGM	2013-11-19	Voted
MYRIAD GENETICS INC	2013-12-05	AGM	2013-11-20	Voted
ASSOCIATED BRITISH FOODS PLC	2013-12-06	AGM	2013-11-22	Voted
PROSPECT CAPITAL CORP	2013-12-06	AGM	2013-11-20	Voted
MINDRAY MEDICAL INTL	2013-12-17	AGM	Not Voted	No shares to vote.
ANZ-AUSTRALIA & NEW ZEALD BK	2013-12-18	AGM	2013-12-11	Voted
INCITEC PIVOT LTD	2013-12-19	AGM	2013-12-10	Voted

TABLE 4: SIGNIFICANT FOR VOTES

GEOGRAPHICAL LOCATION			
SOUTH AND CENTRAL AMERICA			
Meetings	Count All For	AGM	EGM
0	0	0	0
REST OF THE WORLD			
Meetings	Count All For	AGM	EGM
13	0	0	0
ASIA			
Meetings	Count All For	AGM	EGM
3	0	0	0
NORTH AMERICA			

Meetings	Count All For	AGM	EGM
6	0	0	0
UK			
Meetings	Count All For	AGM	EGM
4	0	0	0
EU			
Meetings	Count All For	AGM	EGM
2	0	0	0
JAPAN			
Meetings	Count All For	AGM	EGM
0	0	0	0

CLIENT VOTE CHANGES

There were no vote changes during the quarter

VOTES REJECTED IN THE QUARTER AND EXPLANATION

PIRC was not notified of any vote rejections during the quarter.

UK Stories

Audit Reforms

FRC Response

The last Quarterly Report outlined proposals from Competition Commission to reform auditor selection and governance processes for FTSE 350 companies including rotation and reporting to shareholders as part of it Statutory Audit Services Market Investigation.
The Financial Reporting Council has responded to these proposals and posted only the letter it has sent to the Competition Commission addressing in turn various specifics raised by the Commission's statutory audit services market inquiry.

The FRC does not support or seeks amendments to many of the proposals and has undertaken to conduct a further consultation later this year around changes to the UK Corporate Governance Code. The response can be viewed at the FRC website. In respect of its proposed remedies, the Competition Commission is expected to publish a draft Order in late January 2014.

Questioning shareholder primacy & stability of the financial system

One of the interesting ideas in the Parliamentary Commission on Banking Standards (PCBS) report was that shareholder primacy should be removed at the banks. Now under consultation by BIS, the proposal is drawing out some interesting responses.

The proposal was included in the BIS consultation paper *Transparency & Trust*. The idea has already been panned by the Financial Reporting Council, (FRC) which argued that "If shareholder primacy is removed it may affect the ability of banks to attract future capital' and as PIRC previously noted the Institutional Investor Committee has gave the concept short thrift.

The idea was given a more positive welcome by the TUC, which probably senses the opportunity to have a discussion about other governance models where employees play a greater role. But possibly the most surprising response to the BIS consultation question on this issue came from the Institute of Directors who took what may be regarded as a slightly radical position. Although the IoD does not agree with amending company law, as proposed by the PCBS, it is sympathetic to the thrust of the proposal.

It said: 'We agree that the directors of systemically important financial institutions have wider responsibilities than simply promoting the interests of shareholders, even taking into account the nuances of the 'enlightened shareholder value' concept that is embedded in section 172 of the CA06… In an ideal world, systemically-important financial institutions (or other organisations that are "too big or important to fail") would adopt some other corporate legal framework in which directors' fiduciary duties were explicitly framed in terms of promoting broader social or stakeholder objectives, such as the stability of the financial system.'
So banks shouldn't be PLCs, and their directors should have "social or stakeholder objectives". That could be regarded as a major change to established governance principles, or even market based economic orthodoxy.

Appeals Court Extends Legal Advisers Duty of Care

This recent decision of the Appeals Court goes bears a closer look.
The delicate relationship between a company's officers and their non-executive directors was tested again in a decision arising from a dispute between Newcastle International Airports Ltd (NAIL) and their legal advisers Eversheds LLP.

The law firm was asked to give advice with regard to new service contracts for the company's two executive directors, the CEO and Finance Director/Company Secretary. The new contracts provided for bonus payments of £8m and altered covenants preventing both executives working for competing airports. The CEO was the chief company officer instructing Eversheds on preparation of the new contracts arising from deliberations of the Remuneration Committee.

Following the transactions that triggered bonus payments to the executives, disclosure of the signed contracts and attendant public controversy, NAIL subsequently pursued a claim for damages for alleged negligence by Eversheds.

NAIL contended that neither the Board nor the Remuneration Committee were aware of the full implications of the new service agreements when they were signed on behalf of the company.

The claim was originally dismissed by Proudman J of the UK High Court-Chancery Division in a judgment handed down in early December 2012, with costs against the appellant.

NAIL subsequently mounted an appeal. ICLR reports that the Court of Appeal (Appeals Court) decision in the matter Newcastle International Airport Ltd v Eversheds LLP [2013] EWCA Civ 1514 went in their favour.

The headnote reads: 'Where solicitors were retained by a company to draft new contracts between the company and its executive directors the solicitors breached their duty of care to the company by simply carrying out instructions given by the executive on behalf of the company. In the circumstances of the case, the court held that the solicitors' duty of care required them to give express, separate advice to the chair of the company's remuneration committee regarding the nature and effect of the changes made in the contracts.'

In his Appeals judgment, Lord Justice Rimer stated (paras. [80] and [81]): 'I readily accept that in a conventional case in which a company authorises one of its executives to instruct a solicitor in relation to a company matter, being one in which the executive has no personal interest conflicting with that of the company but can simply be regarded as a human organ of the company, there will ordinarily be no need for the solicitors to give advice as to the matter the subject of their instruction to anyone other than the executive. Advice to him will stand as advice to the company. That, however, was manifestly not this case'.

In effect, the Appeals Court upheld of the original decision, but reversed the view that there was no breach by Eversheds and in doing so expanded on the duty of care required by legal advisers particularly where the instructing officer of the company has an interest in the matter.
Separate advice directly to the Chair of the Remuneration Committee appears to be the crux in this particular circumstance.

A further indication of where overall responsibility lay appeared in the final line of the Appeals Court decision on the extent of the duty of care breach by Eversheds.

‘I have taken a different view from the judge as to the extent of Eversheds' duty of care, and would hold that, by failing to provide any explanatory memorandum to Ms Radcliffe, [Chair of the NAIL Remuneration Committee] they breached their retainer. For reasons given, however, I agree with the judge that such breach was not causative of substantial loss.’

‘Formally, I consider that the correct course would be to allow NIAL's appeal, set aside paragraph 1 of the judge's order by which she dismissed NIAL's claim and substitute for it an order that Eversheds must pay NIAL nominal damages of £2 for breach of retainer.’ A helpful reassertion of accountability by officers of a company to their elected directors.

Rising off-shore ownership of UK quoted stocks reflect underlying long term changes in domestic capital markets.

Non British shareholders now own more than half of the UK-quoted shares, raising questions about the current regime of company ownership.

A report by the Office for National Statistics (ONS) estimates that owners from the rest of the world hold 53.2 per cent of the value of UK stock. Ownership by overseas investors has increased substantially since 1963 and has now for the first time overtaken domestic shareholders. The ONS survey has estimated ordinary shares holdings in quoted companies in the UK by sector of beneficial ownership and found that UK individuals, who now once again represent the largest class of UK investors, merely held 10.7 per cent by value at the end of 2012.

After individuals, the next biggest UK shareholders are estimated to be unit trusts with 9.6 per cent holding, continuing strong growth seen in recent years. In contrast, insurance companies and pension funds have seen their holdings plummet over the years.

UK insurers only held 6.2 per cent at the end of 2012, which is significantly lower than the levels seen in recent years. Similarly, pension funds holding well over 30 per cent of UK stocks in the early 1990s, have seen their ownership shrink to only 4.7 per cent. The report suggests that the decline in UK holdings by institutional investors reflects their broadening of portfolios in search for higher returns and the spread of risk.

According to the ONS: “The large increase [of world ownership] since 1994 partly reflects the growth in international mergers and acquisitions, and the ease of overseas residents to invest in UK shares.” The ONS survey clearly shows that two of the biggest overseas share owners are unit trusts and other financial institutions, together holding 57 per cent of UK stocks that are foreign owned and that such investors are primarily looking for financial returns for their overseas clients.

The danger here is that they maybe less likely to take into account matters such as high standards of corporate governance or what is good for the British economy and society as a whole. For every CalPERS or Norges Bank there maybe several US mutual funds, whose views of executive pay are even more accommodating of corporate largesse than some of our domestic institutions.

Under a liberal capital market regime such investors should have the same rights as domestic investors, who might at least have a tendency to pursue long term investment strategies and ought to be more aligned with the interests of British society.

Concerns about the globalisation of ownership should not be simply dismissed as parochial. Such a profound shift in the nature of the ownership of British business, and what it means for our system of corporate governance, deserves proper debate.

Slow Progress on FTSE Gender Diversity

With Angela Ahrendts leaving Burberry as the company's chief executive, only two female FTSE 100 CEOs remain.

The news about Angela Ahrendts, CEO of Burberry, moving to Apple to become senior vice-president of its retail and online stores triggered a renewed debate in the UK about the progress towards greater gender diversity at the executive level of FTSE 100 companies. Ms. Ahrendts is one of only three remaining female CEO's of the biggest UK listed firms after Marjorie Scardino, ex- CEO of Pearson, and her counterpart at Anglo American, Cynthia Carroll, left office within the last year.

The number of women FTSE executives is everything but encouraging, attention should shift from looking at departing female CEOs to the real causes of the gender gap. The core of the problem is the continuing lack of a 'pipeline' of female talent, which would allow women in management roles to move to top positions. More direct intervention may still be required from companies to achieve this.

The Government says that the figures published on October 2013 as part of its Women on Board initiative, spearheaded by Lord Davies, show that the UK is making good progress in reaching the target of 25% of board positions being held by women by 2015.

Big Jump Needed in Next 2 Years

Figures for the FTSE100 show that:

- 19% of directors are female (up from 12.5% when Lord Davies reported in February 2011 and 17.4% in May 2013).
- 23.8% of non-executive directors are female (up from 15.6% in February 2011 and up from 22% in May 2013
- 6.1% of executive directors are women (up from 5.5% in February 2011 and up from 5.6% in May 2013)
- 24% of board appointments since 1 March 2013 have been women. In May 2013 this was 12%
- In order to reach Lord Davies' target of 25%, FTSE100 companies need to appoint 66 more female directors in the next 2 years.

FTSE 350 figures had only slight improvement

The Cranfield School of Management published a November report titled "Women on Boards, Benchmarking adoption of the 2012 Corporate Governance Code in FTSE 350", which presents the latest figures on the number of women on boards of UK's 350 biggest listed companies and the pace of change over the past six months.

The report suggests that since the Davies Report in March 2011, the percentage of female-held directorships on FTSE 100 boards has increased to 18.9 per cent and on FTSE 250 boards to 14.9 per cent. Despite this encouraging trend the percentage of new director appointments going to women will need to increase substantially if Lord Davies' target of 25 per cent by 2015 is to be met.

The analysis of companies' annual reports also showed that 65 per cent of the FTSE 100 companies and only 18 per cent of FTSE 250 companies had stated a clear policy on board diversity.

Euro Stories

Lagging fund activism in Europe

Hedge fund activism is much more prevalent in the US as in Europe due to various cultural and regulatory reasons.

While hedge fund activism is widespread in the US, similar investor campaigns seeking corporate change face many more hurdles in Europe. According to figures from Activist Insight only 34 companies were targeted by public activist campaigns in Europe this 2013 compared with 149 in the US over the same period. It seems that in the European investment culture, activism is much less acceptable and mostly takes place behind closed doors in contrast to the well publicised campaigns in the US.

Maarten Wildschut, lead portfolio manager at RWC, believes it is harder to be an aggressive activist in Europe than in the US: "The regulatory landscape in Europe is much more complex, the remit of company boards is broader and more opaque and lots of European companies have dual shareholder structures." Added to this is also Europe's fragmented market structure, the prevalence of powerful family shareholders and widespread corporate hostility towards media involvement in shareholder disputes. Shareholders and asset managers should also be wary about widely believed but unfounded assertions about the negative impact of investor activism on company performance.

A new study conducted by scholars from Harvard Law School, Duke University and Columbia Business School examined 2,000 interventions by activist hedge funds during the period 1994 – 2007 over a long time window of five years following the intervention. The evidence shows that interventions by activist shareholders, including hedge funds, do not have an adverse effect on the long-term interests of companies and shareholders and that companies' operating performance actually improved after activist interventions.12

French green bond demand signals growing investor interest

A new €1.4bn green bond issued in November by French state-controlled utility Électricité de France (EDF) to finance renewable projects has met with strong demand from institutional investors.

EDF, the world's largest producer of electricity with a strong bias towards nuclear energy, said the 7.5-year issue was the first green bond in euros by a large corporate and that it was "twice oversubscribed" and a "great success among institutional investors". The strong demand specifically came from investors integrating environmental, social and governance (ESG) criteria in their investment decisions – accounting for 60% of the allocation.

“Through this transaction, the group has over achieved its objective to attract new investors,” said EDF, which is 84.4% owned by the French state. It said this initial transaction was a major commitment which paves the way for new channels of financing for other EDF businesses, such as hydropower and energy services.

Proceeds will go exclusively towards financing future renewable energy projects led by its subsidiary EDF Energies Nouvelles [New Energies]. The projects will have to comply with eligibility criteria drawn up by French ESG ratings house Vigeo with verification by Deloitte. EDF Energies Nouvelles has a gross installed capacity of 6.4GW and a 1.5GW pipeline. Wind is the main component of its mix, accounting for 87% of total installed capacity.

French investors took 36% of the issue, according to the Climate Bonds Initiative group, a project of the Network for Sustainable Financial Markets and CDP [Carbon Disclosure Project]. German and Austrian investors accounted for 17% while Southern European players took 10%. By type they were fund managers (70%), central banks (13%) and insurance and pension funds (13%).

In what’s proving a bumper month for green/sustainability bond issues, the EDF bond follows earlier issues from Swedish property company Vasakronan, Bank of America, Norway’s Kommunalbanken, Dutch development bank FMO and the World Bank’s IFC. On top of this, insurance giant Zurich has signalled a €1bn appetite for green bonds.

MEPs back plans to boost transparency on firms’ environmental and social impact

Large companies would be obliged to disclose information on their environmental, social and employee-related impact under a draft law on non-financial reporting approved by Legal Affairs Committee in December 2013.. Disclosure should make them more accountable to investors, consumers and civil society, and help them to manage risks more effectively, say MEPs, who also call on the Commission to consider proposing requirements in 2018 for country-by-country reporting on profits, taxes and subsidies.

The proposed rules would require large EU companies (over 500 employees) to include in their management reports a non-financial statement on the impact of their activities relating to environmental, social and employee matters, including respect for human rights and efforts to combat corruption and bribery. This statement should provide comparable descriptions of the policies, risks and results related to these matters.

Large listed companies would also have to publish information on their diversity policy for boards, including information on the age, gender, disability, ethnic origin and educational and professional background of their members. To help ensure that non-financial information published by companies is comparable, MEPs call on the European Commission to publish guidelines, developed in cooperation with stakeholders, on how to use international standards and non-financial performance indicators. MEPs also amended the proposed rules to ensure that companies are not obliged to publish information on upcoming developments and negotiations if disclosure would “be seriously prejudicial to their commercial position”.

A majority of committee MEPs agreed to propose that when reviewing the directive in 2018 the Commission should consider introducing an obligation for large companies to disclose country-by-county information on profits, taxes and subsidies received where they operate. However, some MEPs wanted to propose including such a requirement immediately.

Swiss pension funds obliged to vote at AGMs under watered down version of Minder

Swiss pension funds will now be obliged to vote at company annual meetings according to the final version of the so-called Minder initiative against excessive executive pay. It means they have failed in their attempt to be exempted from having to vote.

According to the final Minder law, unveiled on in late November 2013 by the Swiss justice ministry and which takes effect on January 1, 2014, the funds will have to vote at listed Swiss firms. Yet the law permits them to abstain if it's "in the interests of their beneficiaries." The law goes on to say that the schemes' management will define exactly what those interests are. The measure further specifies the issues to be voted on – namely board elections, pay for executives and board members and changes to company statutes.

To the delight of Swiss pension fund lobby ASIP, which had opposed the Minder initiative prior to its adoption during a March 3 referendum, the government's original draft law exempted the schemes from voting altogether if their managers felt it conflicted with beneficiaries' interests.

That waiver defied the spirit of the highly popular initiative, which held that pension funds, as guardians of social capital, must take a stand on executive pay by voting at AGMs.

The Minder camp was outraged, accusing the justice ministry of striking a "behind-the-scenes deal" with ASIP to exempt pension funds from the voting requirement. "Close examination of the draft law reveals that the passage concerning the requirement was just copied from a position paper by ASIP and economiesuisse (Switzerland's business lobby)," said fellow proponent Claudio Kuster.

While the ministry denied any backroom deal, it appears that it has realised a full exemption would have subverted Minder, which was supported by 70% of voters.In a statement, ASIP regretted the removal of the full exemption but welcomed being able to abstain.

The Minder law also respects the initiative's original proviso that funds must inform their beneficiaries about how they voted at AGMs. This reporting can, however, take the form of a general summary, which ASIP greeted with relief. Another major change to the initiative is the government's decision to preserve golden handshakes for executives. The original ban on "golden parachutes," or generous severance pay for executives, has also been upheld. The government has given the country's listed companies and their shareholders up to one year to prepare for the new regime.

US Stories

Pressure grows for SEC stock trading rules review

The main US securities regulator is facing fresh pressure to undertake a large-scale review of the rules governing the US equity markets following a call from another of the agency's five main commissioners.

Michael Piwowar, the newest of the five commissioners at the Securities and Exchange Commission, also became the third to call formally for a review of US market structure in recent weeks.

Mr Piwowar, whose background is in market microstructures, said he found it "troubling" that regulators had yet to take up such a study even as it has been more than three years since the May 2010 "flash crash".

His comments are the latest in a series of calls made by other SEC commissioners such as Daniel Gallagher, a Republican appointee like Mr Piwowar, and Luis Aguilar, a Democrat, for the regulatory body to launch such a review. Mr Piwowar said he would be engaging with the other commissioners and Mary Jo White, chair of the SEC, on his return to the US. In October Ms White agreed more should be done but stopped short of calling for a full review.

In his first speech as a commissioner he called for a wide-ranging study akin to the one conducted by the Foresight Committee in the UK. That two-year project, published last year, included the contributions of academics, market practitioners and regulators. "The UK Foresight model is one that we should entertain in the US. The SEC can benefit tremendously from collaboration with market structure experts from both the private sector and the academic world," he told investors at a conference held by ICI Global, an investor trade association, in London.

The rules, known as Regulation National Market Structure (Reg NMS), were implemented in 2007 with the goal of ensuring retail investors received the best possible market price when trading.However, the rules also had the unintended consequence of turning the US equity market into a highly complex and fragmented system where 13 exchanges and 50 alternative trading venues vie for transactions.

A spate of high-profile glitches, such as the flash crash of 2010 where shares oscillated wildly in a matter of minutes and left regulators unable to reconstruct its causes for months, have raised concerns about the role of technology in financial markets. Critics have argued the two trends are interlinked as they have exacerbated the complexity of the market while also pointing a finger at the role of high-frequency traders who have come to dominate the equity markets.

The disputes have also pitted leading stock exchanges against bank-run brokerage businesses as the two more directly compete for trading business.

The Foresight report was a two-year study overseen by the UK government into the future of computerized trading. It called for action to limit sharp swings in financial markets in an effort to manage better systemic risks and argued investors should be protected by reducing so-called "tick sizes", the increments by which asset prices are allowed to fluctuate

CalPERS newsroom an eye opener

Giant California based public servants pension schemes CalPERS launched a new online newsroom late in 2013. Equipped with live Twitter feed and a host of other features it provides an insight into how far the very largest of pension funds will take public transparency of their policies, costs and investments and overall governance in the future. Coupled with the existing live webcasts of Board and Committee meetings and extensive disclosure of shareholder fund engagement ESG and voting activity, the new newsroom is a pointer to where scale economics and overall communications can combine.

Global Stories

More work needed by regulators

Finance Professionals Fear another Crash

An overwhelming majority of finance sector professionals do not believe sufficient steps have been taken by regulators to prevent another crash in markets according to an international survey commissioned by the Financial Times and published late November 2013.

The research of attitudes amongst bank, asset management and hedge fund staff revealed 97% doubted regulators fully understood the causes of the financial crisis and 52% believe that subsequent regulations are not robust enough to prevent a repeat occurrence.

“The results of this survey are no surprise. It is yet another indication that further reform is needed both in regulatory standards and corporate governance to lower the systemic risk in global investment markets” commented Alan MacDougall, Managing Director of PIRC.

2013 Sees More Fines- More International Investigations- Forex markets & insider trading next

The UK financial regulator levied a record £472m in fines on various entities and individuals for 2013, up 51% on the previous 2012 record. Some of the worlds biggest banks have been at the core of serious lapses in governance with penalties levied by the Financial Conduct Authority against JP Moragan, RBS, Rabobank and Lloyds Banking Group being amongst the largest.

The London Whale scandal and the still evolving Libor fraud were major contributors to last years revenue boost with most proceeds going to Treasury. All up, 45 institutions and individuals contributed to the record tally, a small reduction from the 55 entities fined during 2012.

More fines are expected later in 2014 as settlement is reached on on further Libor related scandals that to date has seen a total of $5.8b paid by global financial institutions to settle claims from rigging the key borrowing rate, reported by the Financial Times as underpinning a whopping $350tn of credit products.

The FCA is now turning investigative resources to potential manipulation of benchmark rates in Forex, gold and other indices. According to a report in FT on december 30th, Tracey McDermott FCA head of enforcement said the FCA's Libor investigators, who number about 60-out of a total just shy of of 400 in the regulators enforcement divission-were :transferring the knowledge and lessons learned from investigating Libor' into their enquiries into the forex market.

The FCA also recieved high number of requests for assistance from off-shore regulators during 2013, recording over 1,000 by late December 2013, with expectations that the 2011 high of 1,023 may be exceeded.

Many of the requests have come from US based regulators as cross border coordination increases, in part driven by Libor, with another 10 domestic regulatory authorities from countries around the world still conducting separate investigations into the scandal. Insider trading is also on the agenda of international regulators, with the UK regulator recording a 2013 increase in arrests, whilst a doubling of fines issued by the French regulator, a tripling of investigations in Australia and increases in investigations reported in both Hong Kong & German authorities.

The SEC opened 908 investigations for 2013 up more than 10% on 2012, with a spokesman quoted in the Financial Times saying 'We have brought a record number of insider trading actions in the last four years and will continue to do so.'

China: Beijing and Shanghai Launch Carbon Emissions Trading Pilots – November & December 2013

Two of China's largest carbon emissions trading pilots launched in late November 2013. Once all 7 pilots are operating, 10% of China's emissions will be covered. Market mechanisms will play a much stronger role in environmental protection in the future.

In late November 2013, carbon Emissions Trading Pilot Schemes were launched in Shanghai and Beijing with carbon traded at 27 yuan (3.3 Euros) and 51 yuan (6.1 Euros) per tonne respectively. These are the second and third of China's pilots to launch. The first, in Shenzhen, started trading in June 2013 with an average trading price of 80 yuan (around 10 euros per tonne). Two more pilots (Guangdong and Tianjin) launched in December.

In October 2012, China's powerful super planning Ministry, the National Development and Reform Commission (NDRC), made a commitment to develop emissions trading. They planned to develop carbon trading in 5 municipalities and 2 provinces on a trial basis by 2013, moving to a national scheme by 2020. Based on analysis from UK Trade & Investment the pilots will regulate nearly 1 gigatonne of carbon dioxide every year, representing about 10% of the country's total emissions. The initial cap will match China's carbon intensity target (improving 17% between 2011-2015) but not yet go beyond. The launch of the pilots in China's political and financial capitals is a highly symbolic step towards fulfilling this commitment.

Over the past two years, the governments in the pilot cities and provinces have released their "implementation plans" that form the basis for local emissions trading schemes, and collected emissions data from target enterprises that create the basis for allocating emission allowances. There is a temporary legal basis and punishments can be levied if enterprises fail to comply. But more effective will be the political pressure to comply, and the competition between the pilots to succeed.

There has also been progress on a national level ETS. In October the NDRC issued “Guidance on Greenhouse Gas Measurement and Reporting” in ten major emitting sectors, including power, the grid, steel, petrochemicals, cement and airline industries. A national registry to support a voluntary based carbon trading and offsetting system went online in November 2013.

The launches are an important step forward in developing China’s carbon market. The clearly articulated purpose of the pilots is capacity building and lesson learning. At the same time the NDRC will need to develop the national infrastructure for a scaled up market, possibly linking the pilots up into a national scheme. Enormous challenges lie ahead, particularly activating the market, improving Monitoring, Reporting and Verification (MRV), setting effective caps and getting an effective legal framework in place.

The size of the seven pilots matters in comparison to the total economy. Together they contribute 25% of China’s GDP, consume 20% of national energy and are largely coal-based. The launch of ETS pilots in Beijing, Shanghai and Shenzhen sets a powerful example for the rest of the country and provides evidence for national decision makers. The UK has been working with the Chinese authorities at pilot and national level to help develop the schemes.

The recent Third Party Plenum set a framework for the future in which the market will play a much stronger role in managing resources and making the polluter pay.

Signs of global improvement in Q4

Global equity markets continued to rally in the fourth quarter of 2013. The MSCI World Index gained 8.5%, as many of the major worries that dominated the investment landscape earlier in the year faded. Sentiment was lifted by the US Federal Reserve’s decision on tapering its asset purchase programme and the improving economic outlook globally, but most notably by the end of the eurozone recession.

In December the Fed announced it would start to reduce the pace of its asset purchases from January 2014, from $85 billion to $75 billion per month.
The tapering announcement was broadly welcomed by investors and equities rose. The Fed’s decision is ultimately a positive signal about the strength of the US economy and a return to more normal conditions. The US economy expanded by 4.1% on an annualised basis in the third quarter of 2013, with the pace of growth expected to pick up in 2014.

The eurozone moved out of recession in the third quarter of 2013 and economic data suggests that the economic expansion continued in the fourth quarter. And composite PMI ended the year at 52.1, a three-month high. The period of relative financial calm and economic stabilisation led to increased capital flows into the region and European equities rose by 6.0%. However, while the peripheral economies improve there are growing concerns about the French economy.

Standard and Poor’s cut the country’s credit rating to AA based on the lack of economic reform. Good progress was made on the EBU and a deal was reached that included a regional approach to risk and a commitment to burden sharing that may help start 2014 with some momentum.

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